

Operating Cost Statement for the year ended 31 March 2003

Continuing Operations

	Notes	2002-03 £000	Restated 2001-02 £000
Programme costs	2.1	67,291	65,933
Operating income	4	(3,208)	(2,758)
Net operating cost		64,083	63,175
Net resource outturn	3.1	64,083	63,175

Statement of Recognised Gains and Losses for the year ended 31 March 2003

		2002-03 £000	2001-02 £000
Unrealised surplus/(deficit) on the revaluation of fixed assets	12.2	0	0
Unrealised surplus/(deficit) on the indexation of fixed assets	12.2	1,181	277
Fixed asset impairment losses	12.2	0	0
Prior Period Adjustment (Early Retirements)		(79)	0
Prior Period Adjustment (Debtors)		(1,050)	0
Prior Period Adjustment (Intangible Assets)		37	0
Transfer of Assets to NHSCFSMS		(528)	0
Recognised gains and losses for the financial year		(439)	277

The notes at pages 12 to 26 form part of this account.

Balance Sheet as at 31 March 2003

		31 March 2003 £000	Restated 31 March 2002 £000
	Notes		
Fixed assets:			
Intangible assets	5.1	288	37
Tangible assets	5.2	15,961	13,832
		<u>16,249</u>	<u>13,869</u>
Current assets			
Stocks	6	232	196
Debtors	7	5,520	4,973
Cash at bank and in hand	8	125	66
		<u>5,877</u>	<u>5,235</u>
Creditors: amounts falling due within one year	9.1	(484)	(1,505)
Net current assets/liabilities		<u>5,393</u>	<u>3,730</u>
Total assets less current liabilities		<u>21,642</u>	<u>17,599</u>
Provisions for liabilities and charges	10	(576)	(762)
		<u>21,066</u>	<u>16,837</u>
Taxpayers' equity			
General Fund	12.1	20,077	17,029
Revaluation reserve	12.2	989	(192)
		<u>21,066</u>	<u>16,837</u>

The notes at pages 12 to 26 form part of this account.

Signed:

Date:

Accountable Officer

Cash Flow Statement for the year ended 31 March 2003

	Notes	2002-03 £000	2001-02 £000
Net cash outflow from operating activities	13	61,945	60,260
Capital expenditure and financial investment:			
Payments to acquire intangible fixed assets		274	0
Payments to acquire tangible fixed assets		4,202	2,507
(Receipts) from disposal of intangible fixed assets		0	0
(Receipts) from disposal of tangible fixed assets		0	0
Net cash (inflow)/outflow from investing activities		4,476	2,507
Net cash outflow before financing		66,421	62,767
Financing			
Net Parliamentary funding		66,480	62,825
Capital element of finance leases		0	0
(Increase)/decrease in cash in the period	8	(59)	(58)

The notes at pages 12 to 26 form part of this account.

Notes to the Account

- Accounting Policies** 1 The financial statements have been prepared in accordance with the Resource Accounting Manual issued by HM Treasury. The particular accounting policies adopted by the Authority are described below. They have been consistently applied in dealing with items considered material in relation to the accounts.

1.1 Accounting Convention

This account is prepared under the historical cost convention, modified to account for the revaluation of fixed assets, and in accordance with directions issued by the Secretary of State for Health and approved by HM Treasury.

Acquisitions and Discontinued Operations

Activities are considered to be 'acquired' only if they are acquired from outside the public sector. Activities are considered to be 'discontinued' only if they cease entirely. They are not considered to be 'discontinued' if they transfer from one NHS body to another. From 1 January 2003 the responsibility for collecting prescription charges not paid at source passed to the NHS Counter Fraud and Security Management Services, NHSCFSMS. Any income collected since that date will be shown in their accounts. Debtors representing uncollected penalties and surcharges at 31 December 2002 have been transferred to the NHSCFSMS. These were valued at £457,000.

1.2 Income

Income is accounted for applying the accruals convention. The main source of funding for the Special Health Authority is Parliamentary grant from the Department of Health from Request for Resources 1 within an approved cash limit, which is credited to the general fund. Parliamentary funding should never be treated as deferred income.

Operating income is income which relates directly to the operating activities of the authority. It principally comprises fees and charges for services provided on a full-cost basis to external customers. It includes both income appropriated-in-aid and income to the Consolidated Fund which HM Treasury has agreed should be treated as miscellaneous income. Where income is received for a specific activity which is to be delivered in the following financial year, that income is deferred.

1.3 Taxation

The Authority is not liable to pay corporation tax. Expenditure is shown net of recoverable VAT. Irrecoverable VAT is charged to the most appropriate expenditure heading or capitalised if it relates to an asset.

1.4 Capital charges

The treatment of fixed assets in the account is in accordance with the principal capital charges objective to ensure that such charges are fully reflected in the cost of capital. The interest rate applied to capital charges in the financial year 2002-2003 was 6% on all assets less liabilities, except for cash balances with the Office of the Paymaster General, (OPG), where the charge is nil.

1.5 Fixed Assets

a. Capitalisation

All assets falling into the following categories are capitalised:

- i Intangible assets where they are capable of being used for more than one year and have a cost, individually or as a group, equal to or greater than £5,000.
- ii Purchased computer software licences are capitalised as intangible fixed assets where expenditure of at least £5,000 is incurred. A prior period adjustment has been actioned to bring these into the balance sheet on the advice of the Department of Health.
- iii Tangible assets which are capable of being used for more than one year, and they:
 - individually have a cost equal to or greater than £5,000;
 - collectively have a cost of at least £5,000, where the assets are functionally interdependent, they had broadly simultaneous purchase dates, are anticipated to have simultaneous disposal dates and are under single managerial control; or
 - form part of the initial setting-up cost of a new building, irrespective of their individual or collective cost.

b. Valuation

Intangible Fixed Assets

Intangible fixed assets held for operational use are valued at historical cost. They cover the cost of computer licences lasting more than one year.

The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

A prior period adjustment was made to reflect the net book value of intangible assets that had previously been charged to the general fund. Under revised accounting principles these are now shown in the balance sheet.

Tangible Fixed Assets

Tangible fixed assets are stated at the lower of replacement cost and recoverable amount. On initial recognition they are measured at cost including any costs such as installation directly attributable to bringing them into working condition. They are restated to current value each year. The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

- i Land, buildings, installations and fittings

Valuations are carried out by the District Valuer of the Inland Revenue Government Department in accordance with FRS 15 every five years. Between valuations price indices appropriate to the category of asset provided by the Valuation Office Agency and published in the Manual for Accounts are applied to arrive at the current value. The buildings indexation is based on the All in Tender Price Index published by the Building Cost Information Service (BCIS).

The land index is based on the residential building land values reported in the Property Market Report published by the Valuation Office. The valuations were carried out in accordance with the Royal Institute of Chartered Surveyors (RICS) Appraisal and Valuation Manual insofar as these terms are consistent with the agreed requirements of the Department of Health and HM Treasury. In accordance with the requirements of the Department of Health, the asset valuations were undertaken in 1999 as at the prospective valuation date of 1 April 2000.

The valuations have been carried out primarily on the basis of Depreciated Replacement Cost for specialised operational property and Existing Use Value for non-specialised operational property. In respect of non-operational properties, including surplus land, the valuations have been carried out at Open Market Value. The value of land for existing use purposes is assessed to Existing Use Value. The valuations do not include notional directly attributable acquisition costs nor have selling costs been deducted, since they are regarded as not material.

To meet the underlying objectives established by the Department of Health the following accepted variations of the RICS Appraisal and Valuation Manual have been required:

- specialised operational assets have been valued on a replacement rather than modern substitute basis;
 - no adjustment has been made to the cost figures of operational assets in respect of dilapidations; and
 - additional alternative Open Market Value figures have only been supplied for operational assets scheduled for imminent closure and subsequent disposal.
- ii Operational equipment is valued at net current replacement costs through annual uplift by the change in the value of the GDP deflator. Equipment surplus to requirements is valued at net recoverable
- iii There were no assets in the course of construction.
- iv All adjustments arising from indexation and five-yearly revaluations are taken to the Revaluation Reserve. All impairments resulting from price changes are charged to the Statement of Recognised Gains and Losses. Any falls in value when newly constructed assets are brought into use are also charged there.

c. Depreciation and Amortisation

Depreciation is charged on each individual fixed asset as follows:

- i Intangible assets are amortised, on a straight line basis, over the estimated lives of the assets.
- ii Purchased computer software licences are amortised over the shorter of the term of the licence and their useful economic lives.
- iii Land and assets in the course of construction are not depreciated.

- iv Buildings, installations and fittings are depreciated evenly on their revalued amount over the assessed remaining life of the asset as advised by the District Valuer. Leaseholds are depreciated over the primary lease term.
- v Each equipment asset is depreciated evenly over the expected useful life:

	Years
Moveable engineering plant and equipment and long life medical equipment	15
Furniture and medium life medical equipment	10
Vehicles and soft furnishings	7
Office, information technology, short life medical and other equipment	5
Mainframe information technology installations	8

1.6 Donated Fixed Assets

There are no donated fixed assets.

1.7 Stocks and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value. This is considered to be a reasonable approximation to current cost due to the high turnover of stocks. Work in progress comprises goods in intermediate stages of production.

1.8 Losses and Special Payments

Losses and special payments are charged to the relevant functional headings, including losses which would have been made good through insurance cover had the Authority not been bearing their own risks (with insurance premiums then being included as normal revenue expenditure).

1.9 Pension Contributions

Past and present employees are covered by the provisions of the NHS Pension Scheme. The Scheme is an unfunded, defined benefit scheme that covers NHS employers, General Practices and other bodies, allowed under the direction of Secretary of State, in England and Wales. As a consequence it is not possible for the Authority to identify its share of the underlying scheme liabilities.

The Scheme is subject to a full valuation every four years. The last valuation took place as at 31 March 1999. Between valuations, the Government Actuary provides an update of the scheme liabilities on an annual basis. The latest assessment of the liabilities of the Scheme is contained in the Scheme Actuary report, which forms part of the NHS Pension Scheme (England and Wales) Resource Account, published annually. These accounts can be viewed on the NHS Pensions Agency website at www.nhs.gov.uk. Copies can also be obtained from the Stationery Office.

NHS bodies are directed by the Secretary of State to charge employers pension costs contributions to operating expenses as and when they become due. Employer contribution rates are reviewed every four years following a scheme valuation carried out by the Government Actuary. On advice from the actuary the contribution may be varied from time to time to reflect changes in the scheme's liabilities. At the last valuation on which contribution rates were based (31 March 1994) employer contribution rates for 2002/03 were set at 7% (7% for 2001/02) of pensionable pay.

The total employer contribution payable in 2002/03 was £2,292,000 (£2,338,000 for 2001/02). Employees pay contributions of 6% (manual staff 5%) of their pensionable pay.

The Scheme is a "final salary" scheme. Annual pensions are normally based on 1/80th of the best of the last three years pensionable pay for each year of service. A lump sum normally equivalent to 3 years pension is payable on retirement. Annual increases are applied to pension payments at rates defined by the Pensions (Increase) Act 1971, and are based on changes in retail prices in the twelve months ending 30 September in the previous calendar year. On death, a pension of 50% of the member's pension is normally payable to the surviving spouse.

Early payments of a pension, with enhancement, is available to members of the Scheme who are permanently incapable of fulfilling their duties effectively through illness or infirmity. A death gratuity of twice final year's pensionable pay for death in service, and five times their annual pension for death after retirement, is payable.

The Scheme provides the opportunity to members to increase their benefits through money purchase Additional Voluntary Contributions (AVCs) provided by an approved panel of life companies. Under the arrangement the employee can make contributions to enhance their pension benefits. The benefits payable relate directly to the value of the investments made.

Additional pension costs arising from early retirements are not funded by the scheme except where the retirement is due to ill-health. For pre-6 March 1995 early retirements not funded by the scheme, the additional costs are recharged to the Authority and are currently included within operating expenses as they arise. For post 5 March 1995 early retirements not funded by the scheme, the full amount of the liability for the additional costs is charged to the operating cost statement at the time the Authority commits itself to the retirement, regardless of the method of payment.

1.10 Research and Development

There is no expenditure on research and development.

1.11 Foreign exchange

Transactions which are denominated in a foreign currency are translated into sterling at the exchange rate ruling on the date of each transaction, except where rates do not fluctuate significantly, in which case an average rate for a period is used.

1.12 Leases

There are no assets held under finance leases and hire purchase contracts. Rentals under operating leases are charged on a straight line basis over the terms of the lease.

1.13 Prior period adjustment

In 2002/03 the accounting for pre-6 March 1995 early retirements has been brought into line with that for post-5 March early retirements. The forecast remaining liability (or remaining prepayment, where the liability has been bought out) has been recognised as a prior period adjustment. The total charge to the Operating Cost Statement was £78,562.

There has been a prior period adjustment of £1,050k to reflect the revised assumption that not all of the debtors raised at 31 March 2002 were valid. Further evidence has suggested that only £542k of the £1,592k would be deemed to be a valid debt. This overstated the income in 2001-02 by £1,050k.

There has been a prior period adjustment of £37k in respect of intangible assets - see page 13 note 1.5 b.

1.14 Balance Sheet Adjustment

In line with the Department of Health's guidance on intangible assets, the NBV of intangible assets acquired to 2002-03 have been included in fixed assets. Previously the purchase was funded through the operating costs and, therefore, the general reserve has been adjusted accordingly.

1.15 Provisions

The Authority provides for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury's discount rate of 6% in real terms.

Programme Costs	2.1	Notes	£000	2002-03 £000	2001-02 £000
			42		42
		2.2	43,383	43,425	47,671
				0	0
				3,505	3,278
				646	587
				14,163	9,055
			0		0
Capital:					
		5.1, 5.2	3,087		3,082
		5.1, 5.2	0		0
			1,179		1,011
		5.4	0		
				4,266	4,093
		10		0	0
				0	0
				154	171
				1,132	1,036
				<u>67,291</u>	<u>65,933</u>

The Authority did not make any payments to auditors for non audit work

Staff Costs	2.2	Executive members' remuneration and staff costs	2002-03 £000	2001-02 £000
			38,023	40,680
			2,074	2,455
			2,004	2,338
			0	0
			940	611
			342	1,587
			<u>43,383</u>	<u>47,671</u>

The average number of whole-time equivalent persons employed (including senior management) during the year was 2,260. (2001-02 - 2,080). Temporary and agency staff are not included .

Retirements due to ill-health

During 2002-2003 there were four early retirements from the Authority on the grounds of ill-health. The estimated additional pension liabilities of these ill-health retirements (calculated on an average basis and borne by the NHS Pensions Scheme) will be £164,000.

Senior staff remuneration

2.3 The salary and pension entitlements of the most senior managers of the Authority were as follows:

Name and title	Age years	Salary in £5k bands £000	Benefits in kind £000	Real increase in pension at age 60 in £2.5k bands £000	Total accrued pension at age 60 at 31/3/03 in £5k bands £000
A Galbraith Chairman	62	15-20	0	0	0
M Ali Authority Member	46	5-10	0	0	0
M Bennett Authority Member	55	5-10	0	0	0
J C Norman Authority Member	59	5-10	0	0	0
S Purdy Authority Member	40	5-10	0	0	0
J A Stockwell Authority Member	53	5-10	0	0	0
D G Ball Director of IT	*	65-70	3	2.5-5.0	25-30
C Dalton Director of Pharm Services	45	65-70	0	2.0-2.5	10-15
M King Director of Planning	37	50-55	0	0-2.5	10-15
A McDonald Director of Operations	41	60-65	3	0-2.5	15-20
N Scholte Chief Executive	43	90-95	2	0-2.5	0-5
M Siswick Director of Human Resources	*	55-60	3	0-2.5	5-10
W J Smith Director of Finance & Admin	50	65-70	3	2.5-5.0	20-25

* Consent to disclosure withheld

The Chief Executive and the Directors received no other additional remuneration, golden hello payments or compensation for loss of office. All benefits in kind relate to the provision of a leased car.

Better Payment Practice Code - measure of compliance

	Number	£000
Total bills paid 2002-03	30,122	75,885
Total bills paid within target	28,912	74,684
Percentage of bills paid within target	96.0%	98.4%

The Late Payment of Commercial Debts (Interest) Act 1998:

No interest was paid under the legislation and no compensation was made.

Reconciliation of net operating cost to net resource outturn and Revenue Resource Limit

	2002-03 £000	2001-02 £000
Net operating cost	64,083	62,125
Prior period adjustment	0	1,050
Net resource outturn	64,083	63,175
Revenue resource limit	64,083	64,782
(Over)/under spend against limit	0	1,607

Reconciliation of gross capital expenditure to capital resource limit

	£000	£000
Gross capital expenditure	4,367	2,507
NBV of assets disposed	0	0
Net capital resource outturn	4,367	2,507
Capital resource limit	6,597	3,070
(Over)/underspend against limit	2,230	563

ANNUAL ACCOUNTS OF THE PRESCRIPTION PRICING AUTHORITY 2002 -2003
MAIN ADMINISTRATION

Operating Income	4	Operating income analysed by classification and activity, is as follows:	2002-03	2001-02
			£000	£000
		Programme income:		
		Fees & charges to external customers	471	342
		Income received from Scottish Parliament	920	880
		Income received from National Assembly for Wales	435	420
		Income received from Northern Ireland Assembly	0	0
		Income received from other Departments, etc	0	0
		Income from patients' exemptions penalty charges	618	897
		Other	764	219
		Total	<u>3,208</u>	<u>2,758</u>

Intangible Fixed Assets	5.1		Software Licences
			2002-03
			£000
		Gross cost at 31 March 2002	0
		Prior period adjustment	57
		Restated gross cost at 31 March 2002	<u>57</u>
		Indexation	0
		Impairments	0
		Other revaluations	0
		Additions - purchased	274
		Additions - donated	0
		Disposals	0
		Gross cost at 31 March 2003	<u>331</u>
		Accumulated amortisation at 31 March 2002	0
		Prior period adjustment	20
		Restated accumulated amortisation at 31 March 2002	<u>20</u>
		Indexation	0
		Impairments	0
		Other revaluations	0
		Provided during the year	23
		Additions - purchased	0
		Additions - donated	0
		Disposals	0
		Accumulated amortisation at 31 March 2003	<u>43</u>
		Restated net book value:	
		Purchased at 31 March 2002	37
		Donated at 31 March 2002	0
		Total at 31 March 2002	<u>37</u>
		Net book value:	
		Purchased at 31 March 2003	288
		Donated at 31 March 2003	0
		Total at 31 March 2003	<u>288</u>

Tangible 5.2

Fixed Assets

	Total	Land	Buildings excl dwellings	Plant and Machinery	Transport Equipment	Information Technology	Furniture & fittings
	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation at 31 March 2002	36,706	880	6,695	3,903	42	25,166	20
Indexation	1,265	191	954	118	1		1
Impairments	0	0	0	0	0	0	0
Other in year revaluations	0	0	0	0	0	0	0
Additions - purchased	4,093	0	479	0	0	3,614	0
Additions - donated	0	0	0	0	0	0	0
Transfers to NHSCFSMS	(167)	0	0	0	0	(167)	0
Disposals	0	0	0	0	0	0	0
Gross cost at 31 March 2003	41,897	1,071	8,128	4,021	43	28,613	21
Accumulated depreciation at 31 March 2002	22,874	0	0	2,738	42	20,092	2
Indexation	84	0	0	83	1		0
Impairments	0	0	0	0	0	0	0
Other in year revaluation	0	0	0	0	0	0	0
Provided during the year	3,063	0	215	260	0	2,586	2
Additions - purchased	0	0	0	0	0	0	0
Additions - donated	0	0	0	0	0	0	0
Transfers to NHSCFSMS	(85)	0	0	0	0	(85)	0
Disposals	0	0	0	0	0	0	0
Accumulated depreciation at 31 March 2003	25,936	0	215	3,081	43	22,593	4
Net book value:							
Purchased at 31 March 2002	13,832	880	6,695	1,165	0	5,074	18
Donated at 31 March 2002	0	0	0	0	0	0	0
Total at 31 March 2002	13,832	880	6,695	1,165	0	5,074	18
Net book value:							
Purchased at 31 March 2003	15,961	1,071	7,913	940	0	6,020	17
Donated at 31 March 2003	0	0	0	0	0	0	0
Total at 31 March 2003	15,961	1,071	7,913	940	0	6,020	17

There were no assets held under finance leases or hire purchase contracts.

Net Book 5.3 The net book value of land, buildings and dwellings as at 31 March 2003 comprises:

Value of	2002-03
Land and	£000
Buildings Freehold	8,984
	8,984

Profit and loss on disposal of fixed assets 5.4 There were no asset disposals made in the year. There was a transfer of fixed assets to the NHSCFSMS of £83k.

Summary of Leasehold Properties	5.5 Property	DV Value £000	Length of Lease (years)	Expiry Date
	Scottish Life House A	250	9	July 2009
	Scottish Life House B	1,100	22	July 2009
	Sandyford House	3,060	17	Aug 2012
	Garage	24	16	July 2007
	West Bromwich	740	14	Dec 2008
	Wakefield	810	29	Sept 2009
	Sheffield	835	27	April 2008
	Wakefield Warehouse	31	17	June 2007
	Liverpool	870	30	Jan 2010
	Newcastle Warehouse	325	5	Aug 2005
	Cuthbert House	-	10	Aug 2012

A DV valuation of Cuthbert House has not been received at the time of these accounts.

These properties are not recorded in the balance sheet as assets as they are considered to fall within the parameters of SSAP21 and not FRS5.

Stocks and work in progress	6	2002-03 £000	2001-02 £000
	IT consumables	183	163
	Print room	9	2
	Health Benefits Division - stationery	37	18
	Administration - cleaning supplies	3	13
		232	196

Debtors	7	Amounts falling due within one year	
		31 March 2003 £000	Restated 31 March 2002 £000
	NHS debtors	148	593
	Prepayments	2,323	2,324
	Accrued income	0	27
	Prescription exemption penalty charges	0	542
	Other debtors	3,049	1,487
		5,520	4,973

Analysis of Changes in Cash	8	At 31 March 2002 £000	Change during the year £000	At 31 March 2003 £000
	Cash at OPG	39	(18)	21
	Cash at commercial banks and in hand	27	77	104
		66	59	125

ANNUAL ACCOUNTS OF THE PRESCRIPTION PRICING AUTHORITY 2002 -2003
MAIN ADMINISTRATION

Creditors:	9	31 March	31 March
Amounts falling due within one year		2003	2002
		£000	£000
NHS creditors		6	0
Capital creditors		0	109
Tax and social security		7	4
Other creditors		312	1,076
Accruals		159	316
		<u>484</u>	<u>1,505</u>

Provisions for Liabilities and Charges	10	Pensions for former staff	Legal claims	Other	Total
		£000	£000	£000	£000
At 31 March 2002		683	0	0	683
PPA (pre 95 Early Retirements)		79	0	0	79
Restated Balance at 31 March 2002		<u>762</u>	<u>0</u>	<u>0</u>	<u>762</u>
Arising during the year		0	0	0	0
Utilised during the year		(186)	0	0	(186)
Reversed unused		0	0	0	0
Unwinding of discount		0	0	0	0
At 31 March 2003		<u>576</u>	<u>0</u>	<u>0</u>	<u>576</u>
Expected timing of cash flows:					
Within 1 year		170	0	0	170
1-5 years		396	0	0	396
Over 5 years		10	0	0	10

Movements in working capital other than cash	11	2002-03	2001-02
		£000	£000
Increase/(decrease) in stocks		36	(12)
Increase/(decrease) in debtors		548	1,406
(Increase)/decrease in creditors		1,022	(488)
		<u>1,606</u>	<u>906</u>

Reserves 12

12.1	The movement on the General Fund in the year comprised:	2002-03
		£000
	Balance at 31 March 2002	18,121
	Prior period adjustment NHSCFSMS debtors	(1,050)
	Prior period adjustment pre-1995 early retirements	(79)
	Prior period adjustment intangible assets	37
	Restated balance at 31 March 2002	17,029
	Net operating costs for the year	(64,083)
	Net Parliamentary funding	66,480
	Transfer of assets to NHSCFSMS	(528)
	Non-cash items:	
	Capital charge interest	1,179
	Balance at 31 March 2003	20,077

12.2	The movement on the revaluation reserve in the year comprised:	2002-03
		£000
	Balance at 31 March 2002	(192)
	Impairments	0
	Indexation of fixed assets	1,181
	Revaluation of fixed assets	0
	Transfer to General Fund: realised revaluation	0
	Balance at 31 March 2003	989

Reconciliation of operating cost to operating cash flows 13		2002-03	2001-02
		£000	£000
	Net operating cost for the year	64,083	63,175
	Adjust for non-cash transactions	(4,266)	(4,093)
	Adj for rev movements in working capital other than cash	1,606	906
	Capital related creditors movement	(121)	
	(Increase)/decrease in provisions	186	272
	Transfer debtors to NHSCFSMS	457	0
	Net cash outflow from operating activities	61,945	60,260

Contingent Liabilities 14 At 31 March 2003, there were no known contingent liabilities.

Capital Commitments 15 At 31 March 2003 the value of contracted capital commitments was £88,678 (2001-02, £603,129)

Commitments under operating leases 16 Programme costs include the following expenses of the Authority in respect of operating leases:

	2002-03	2001-02
	£000	£000
Land and buildings	<u>1,353</u>	<u>1,067</u>
	1,353	1,067

The Authority is committed to make the following payments during the next year in respect of operating leases:

Land and buildings		£000
Operating leases which expire:	within 1 year	0
	between 1 and 5 years	66
	after 5 years	1,287
		<u>1,353</u>
Other leases	within 1 year	0
	between 1 and 5 years	0
	after 5 years	0
		<u>0</u>

Other 17 The Authority does not have any non-cancellable contracts.

Losses and Special Payments 18 A summary of losses and special payments can be found on page 27. Under the revised format supplied by the Department of Health, losses and special payments relating to main administration and pharmaceutical services are combined.

Related Parties 19 The Authority is a body corporate established by order of the Secretary of State for Health.

The Department of Health is regarded as a related party. During the year the Authority has had a significant number of material transactions with the Department, and with other entities for which the Department is regarded as the parent Department such as NHS Modernisation Agency, Health and Social Care Change Agents Team, NHSU, Expert Patient Programme, NHS Clinical Assessment System Joint Development Team and NHSCFSMS.

Post Balance Sheet Events 20 There were no post balance sheet events.

Agencies 21 The Authority continues to provide financial and human resources services to an increasing range of external bodies. Cash limits in excess of £93 million were given to cover expenditure of the organisations detailed in Note 19. This expenditure is not included in the Authority accounts as it is recharged back to the originating organisation. However, the Authority's costs incurred in providing these services has been included along with the total contribution from the organisations of £745k towards these costs. As payment for the organisations' expenditure was made by the Authority, recoverable VAT was charged to the Authority's debtor account, with the relevant organisation being charged the net cost. The Authority will continue to provide these services into 2003-04 as well as similar services for the NHSCFSMS, the NHS Graduate Training Scheme and the National Primary Care Development Team.

Penalty Charges 22 Penalty charges are accounted for in the financial year in which the compliance unit establishes that a charge is due rather than accounting for them in the financial year in which the prescriptions to which the charges relate were dispensed. The Compliance Unit transferred to the NHSCFSMS on 1 January 2003 and any income and expenditure accruing after that date has not been included in these accounts. The assets relating to the unit have been transferred to the new Authority and the General Fund adjusted. In line with advice from the Department of Health the Prescription Fraud Team expenditure of £555k has been included for the full year as the total resource limit was given to the PPA for this purpose. This will transfer, for accounting purposes, to the NHSCFSMS on 1 April 2003.

Financial Instruments 23 FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role that financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the way Special Health Authorities are financed, the Prescription Pricing Authority (PPA) is not exposed to the degree of financial risk faced by business entities. Also financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The PPA has limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities rather than being held to change the risks facing the Strategic Health Authority in undertaking its activities.

As allowed by FRS 13, debtors and creditors that are due to mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.

Liquidity risk

The net operating costs of the PPA are financed from resources voted annually by Parliament. The PPA largely finances its capital expenditure from funds made available from Government under an agreed borrowing limit. The PPA is not, therefore, exposed to significant liquidity risks.

Interest-rate risk

100% of the Authorities' financial assets and 100% of its financial liabilities carry nil or fixed rates of interest. The PPA is not, therefore, exposed to any interest-rate risk. The following two tables show the interest rate profiles of the PPA's financial assets and liabilities:

Financial assets

Currency	Total	Floating rate	Fixed rate	Non-interest bearing	Fixed rate		Non interest bearing
					Weighted average interest rate	Weighted average period for which fixed	
	£000	£000	£000	£000	%	years	Weighted average term years
At 31 March 2003							
Sterling	125	0	0	125	NIL	NIL	5
Other	0	0	0	0	NIL	NIL	NIL
Gross financial assets	125	0	0	125			
At 31 March 2002							
Sterling	66	0	0	66	NIL	NIL	5
Other	0	0	0	0	NIL	NIL	NIL
Gross financial assets	66	0	0	66			

Financial liabilities

Currency	Total	Floating rate	Fixed rate	Non-interest bearing	Fixed rate		Non interest bearing Weighted average term years
					Weighted average interest rate	Weighted average period for which fixed years	
	£000	£000	£000	£000	%		
At 31 March 2003							
Sterling	576	0	576	0	6.00%	5	NIL
Other	0	0	0	0	NIL	NIL	NIL
Gross financial assets	<u>576</u>	<u>0</u>	<u>576</u>	<u>0</u>			
At 31 March 2002							
Sterling	762	0	762	0	6.00%	5	NIL
Other	0	0	0	0	NIL	NIL	NIL
Gross financial assets	<u>762</u>	<u>0</u>	<u>762</u>	<u>0</u>			

Foreign currency risk

The Authority has negligible foreign currency income or expenditure.

Fair values

A comparison, by category, of book values and fair values of the Authority's financial assets and liabilities as at 31 March 2003 is as follows:

	Book value £000	Fair value £000	Basis of fair valuation
Financial assets:			
Cash	<u>125</u>	<u>125</u>	As per book value
Total	<u>125</u>	<u>125</u>	
Financial liabilities:			
Creditors over 1 year:			
Early retirements	<u>576</u>	<u>576</u>	As per book value
Total	<u>576</u>	<u>576</u>	

Losses and Special Payments relating to Main Administration and Pharmaceutical Services

Approved Cases only LOSSES and SPECIAL PAYMENTS IN YEAR	Total value of cases £000	Total number of cases Number
LOSSES:		
1. Losses of cash due to -		
a. theft, fraud etc	0	0
b. overpayment of salaries etc.	3	31
c. other causes	0	0
2. Fruitless payments	0	0
3. Bad debts and claims abandoned -		
a. private patients	0	0
b. overseas visitors	0	0
c. other	789	11,130
4. Damage to buildings, property etc. -		
a. theft, fraud etc	0	0
b. other	0	0
TOTAL LOSSES	792	11,161
SPECIAL PAYMENTS:		
5. Compensation under legal obligation	4	1
6. Extra contractual to contractors	0	0
7. Ex gratia payments -		
a. loss of personal effects	0	0
b. clinical negligence with advice	0	0
c. personal injury with advice	0	0
d. other negligence and injury	0	0
e. other	2	119
f. maladministration, no financial loss	0	0
8. Extra statutory and regulatory	17,655	N/A
TOTAL SPECIAL PAYMENTS	17,661	120
TOTAL LOSSES AND SPECIAL PAYMENTS	18,453	11,281
Of which, cases of £100,000 or more:		
1a & 4a. Fraud cases	0	0
2. Fruitless payments	0	0
7b. Clinical negligence with advice	0	0
7c. Personal injury with advice	0	0
5. Compensation under legal obligation	0	0

**THE NATIONAL HEALTH SERVICE IN ENGLAND ACCOUNTS DIRECTION GIVEN BY
THE SECRETARY OF STATE FOR HEALTH IN ACCORDANCE WITH SECTION 98(2)
OF THE NATIONAL HEALTH SERVICE ACT 1977 AND WITH THE APPROVAL OF TREASURY**

PRESCRIPTION PRICING AUTHORITY

1. The Secretary of State directs that an account shall be prepared for the financial year ended 31 March 2003 and subsequent financial years in respect of the Prescription Pricing Authority. The basis of preparation and the form and content shall be as set out in the following paragraphs and Schedules.

BASIS OF PREPARATION

2. The accounts of the Prescription Pricing Authority comply with:
 - (a) generally accepted accounting practice in the United Kingdom (UK GAAP);
 - (b) the accounting and disclosure requirements of the Companies Act;
 - (c) all relevant accounting standards issued or adopted by the Accounting Standards Board, in so far as they are appropriate to the NHS and are in force for the financial year for which the accounts are to be prepared;
 - (d) accounting guidance approved by the FRAB and contained in the Resource Accounting Manual, but specifically excluding schedules 1 and 5;
 - (e) the historical cost convention modified by the inclusion of fixed assets at their value to the business by reference to current costs; and stocks at the lower of net current replacement cost (or historical cost if this is not materially different) and net realisable value.

FORM AND CONTENT

3. The account of the Prescription Pricing Authority for the year ended 31 March 2003 and subsequent years shall comprise an operating cost statement, a balance sheet, a cash flow statement and a statement of recognised gains and losses as long as these statements are required by FRAB, including such notes as are necessary to ensure a proper understanding of the accounts.
4. For the financial year ended 31 March 2003 and subsequent years, the account of the Prescription Pricing Authority shall give a true and fair view of the state of affairs as at the end of the financial year and the net operating costs, recognised gains and losses and cashflows during the year.
5. The Foreword, the Balance Sheet and the Statement on the system of internal control shall be signed by the chief executive of the Authority and dated. All other papers should be initialled.

MISCELLANEOUS

6. The direction shall be reproduced as an appendix to the published accounts.
7. The notes to the accounts shall, inter alia, include details of the accounting policies adopted.

Signed by the authority of the Secretary of State for Health.

Signed :

Dated :

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SCHEDULE 1

APPLICATION OF THE ACCOUNTING AND DISCLOSURE REQUIREMENTS OF THE COMPANIES ACT AND ACCOUNTING STANDARDS

Companies Act

1. The disclosure exemptions permitted by the Companies Act shall not apply to the NHS unless specifically approved by the Treasury.
2. The Companies Act requires certain information to be disclosed in the Director's Report. To the extent that it is appropriate, the information relating to NHS bodies shall be contained in the foreword.
3. The operating cost statement and cashflow statement shall have regard to the format prescribed in the Resource Accounting Manual.
4. The balance sheet shall have regard to the balance sheet format 1 prescribed in Schedule 4 to the Companies Act.
5. NHS bodies are not required to provide the historical cost information described in paragraph (33) of Schedule 4 to the Companies Act.

Accounting Standards

7. NHS bodies are not required to include a note showing historical cost profits and losses as described in FRS 3.

SCHEDULE 2

ADDITIONAL REQUIREMENTS

1. The foreword shall include a statement that the account has been prepared to comply with a Direction given by the Secretary of State in accordance with section 98(2) of the NHS Act 1977.
2. The foreword shall also contain a description of the statutory background and main functions of the Prescription Pricing Authority Board together with a fair review of their operational and financial activities and a summary of their performance against targets.